

LETTLAND

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The State of Sweden's Welfare System

V. DIKLI FORUM "SOCIAL MARKET ECONOMY"

Hello,

And many thanks for the opportunity to be here today and to take part in this discussion.

The topic of this panel discussion – social justice in welfare – is both a long-standing issue and at the same time extremely current. In a Europe that is bleeding, with tensions between various groups and generations having significantly intensified during the last year alone, there is good reason to consider not only what the state *can* do in the short term, but also what the state *should* do in the long term; to quite simply go back to the drawing board.

It is sometimes said that welfare services are too important to be left to the market, that a strong public hand is most needed to help the unfortunate groups in society. My belief is that it is quite often the other way around. The services that matters most to people; such as health care and education, are far too precious to be left to capricious political majorities and uninformed decision making.

I would rather argue that there are strong reasons to assume that the level of individual vulnerability has actually *increased* with the expansion of the welfare state, as dependency has become more and more unilateral. When times are good and politicians can afford to be generous, this problem is less evident. But when times get bad- as they are now – people suffer the consequences of having disbanded the mutual dependency that exist in smaller communi-

ties, and of having ignored the personal independence that comes with having individual savings.

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In recent times my homeland, Sweden, has attracted considerable attention among policy wonks and international media for the compromise that has been reached between the state and the market forces, not least in welfare. Our system is sometimes described as "the bumble- bee puzzle": given the weight of our public sector (i.e the body) and the smallness of our industry (i.e the wings) this creature should not be able to fly.

Yet it does. In fact, our economy is doing reasonably well, despite the fact that our dependency on exports should be dragging us down by the fall in demand in Europe. And what's more: the prosperity created is distributed relatively evenly. For a democratic, market economy Sweden remains extremely egalitarian.

Have we then, perhaps, found the perfect compromise between capitalism and socialism, between social cohesion and individual potential?

Sadly, I would say no. While the attention is flattering, the conclusions people make are often based on misunderstandings. One reason for this, I believe, is the speed in which the Swedish model has shifted in recent years. Public financing remains intact, but the delivery of many welfare services has been diversified.

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This development is key to understand what kind of social justice our welfare system aims to uphold. The philosophy behind the New Swedish Model is based on two balancing concepts: equality and social mobility.

The public sector in Sweden is still comprehensive, but it is no longer monopolistic. Schools, for instance, may be run by businesses and distribute their profits, but they are not allowed to charge fees for tuition. There is still a significant level of dependency on public decisions, but the introduction of the customer/user choice solutions has brought with it a sort of distribution of power principle. By introducing competition, these choices also correct the systems in place. Recent research shows that municipalities which have a higher degree of independent schools see higher results in the public schools as well, as well as a higher university attendance in the long run.

If school choice is socially just or unjust is a question which is heatedly debated, but a recent German dissertation on the consequences of the reform could not find any evidence that more vulnerable groups have been worse off. If anything, it seems that they have actually benefited slightly. It should also be noted that Swedish schools, according to Pisa, has the second lowest socio-economic spread of all the 44 countries studied.

Those who nevertheless criticise this development claim that the underlying principles behind the welfare system have shifted so much with the introduction of market solutions that they have lost their original meaning. Some even go so far as to claim that the welfare state which our social democrats have spent a century building up has now been replaced with some sort of neoliberal "night watchman" state.

Given the fact that the public sector's tax revenues amounted to more than 1,600 billion Swedish kronor last year – or 45% of Sweden's GDP – that last claim, at least, seems hard to swallow. When it comes to social spending, Sweden takes third place in the EU, close on the heels of France and Denmark.

If this a night-watchman state, I would be curious to know how they perceive Latvia?

That reforms to introduce competition in welfare have been not only been kept by various social democratic governments, but even been completed by them puzzles many, not least within the international workers movement. The reason, as usual when it comes to the development of different welfare schemes, is of course historical.

Sweden have been blessed with a mainly reformist left. The Social democratic ideal of equality hasn't been revolutionary; hatred of the class society seldom aimed at individuals. The goal around the turn of the century was to achieve a society in which everyone would be able to look each other straight in the eye.

In short: equality was about dignity. Not revenge, not conformity.

This would change with time, but as a basis this meant that there was scope for cooperation between pragmatic social democrats and liberals, adding stability to the system. When the agenda had to do with combating poverty rather than wealth, conditions were created for an agreement regarding a welfare system aimed at creating social mobility, accessible education and so forth.

It is when you move away from the fundamental needs that the discussion about what should be included in the welfare system becomes difficult, and genuinely ideological. Today, the most pressing discussion regards the delimitation, rather than the content of the welfare state, of removing rather than adding public responsibility and financing.

Sweden is often used as a positive example of fiscal prudence and well maintained public finances. But the reason why this is so, is because we have a recent history of steering close to financial abyss- the end result of an uncontrolled expansion of the public sector, and of the different, often very harmful ways of trying to pay for it.

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I don't know if any of you have read the works of Astrid Lindgren, Sweden's most well-known author of children's books – it was Lindgren who wrote the books about Pippi Longstocking, among others.

In 1978 it turned out that Astrid Lindgren was forced to pay 102 % in income tax. And despite the fact that Lindgren felt a strong social pathos and had faithfully voted for the social democrats throughout her entire life, she then went public with the question of whether or not the finance minister was really able to count.

With Lindgren's contribution to the debate there was suddenly a new and revolutionary discussion taking place in our socialist heaven: perhaps high taxes couldn't only be used to reduce poverty. Perhaps high taxes could also *create* poverty and hopelessness, holding people back instead of giving them freedom.

The Swedish tax system had become so punitive, and so complicated with its different types of deductions, that in practice it was only those who couldn't afford to hire a tax lawyer who actually paid any tax at all.

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Since 2006, Sweden's current centre-right government has tried to adjust the balance between rights and obligations, a balance that is generally seen to have been upset by the expansion of the welfare state.

The primary method used by the government is what is referred to as earned income tax credit and is in practice a tax reduction for people who earn a living through gainful employment. The philosophy behind this measure is really quite simple: if you make it more profitable to work than to live on welfare benefits, more people will want to work.

It might sound obvious enough, but the design of the measure has actually caused a lot of controversy, since its express aim is to increase the divide between those who work and those who don't.

If this sounds cruel and un-Swedish, there was just cause for the change.

At the end of the 1990s, the level of absenteeism due to sick leave in Sweden doubled within the space of five years. There was no medical evidence to suggest that the population was actually twice as sick as it had been five years earlier. The world's healthiest people were suddenly absent on sick leave to a significantly greater extent than in many other countries.

To change a benefit scheme that at least on paper actually made people sick, and that obviously had harmful effects on the general work ethic became one of the core issues in the election 2006, when the center-right coalition took government, and to defend the change one of the core issues in 2010, when the social democrats were again defeated.

It may seem strange that a tougher line against those who may seem most in need of public generosity should be a winning line of battle in a country like ours. But it actually makes sense.

Our welfare state is among the most mature in the world. It's the circle of life – we have gone further than most other countries, and now we are slowly going back to where we started. Reaffirming the fact that benefits are only for those who really need them, has helped rein in exploding costs, but it has also been good for society on the whole. Lowering taxes have actually made both the state and its citizens richer.

Today, we have the lowest percentage of poor people in the entire EU – 1 per cent. According to SCB (Statistics Sweden), the income levels for the poorest 10 per cent of the Swedish population have increased by 21 per cent since 1999. That is an indication that we are doing something right, but of course it is not a fact that can be taken as an excuse to sit back.

We do indeed have structural problems that need to be addressed.

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- The “all-inclusive”, general welfare state may be warm and fuzzy for those on the inside, but it creates cruel barriers for those excluded.
- An exclusive form of labour market legislation means that young people, people with a lack of education and people with foreign backgrounds have a lot of difficulty in finding their way on to the labour market. Given the fact that Sweden is one of the most generous countries in the world when it comes to receiving asylum seekers, this is particularly worrisome.
- The obsession with equality has created political thresholds for the elimination of taxes on ambition, education and drive – a trait that we will suffer from, long-term.

What we need is a renegotiation of the social contract. I would personally like to see more of the Baltic model on the cover of the Economist.

Welfare needs a radical new organisation for the 21st century, and the concept of social justice a new definition. It is my firm conviction that it must be liberal.

Many thanks for taking the time to listen!